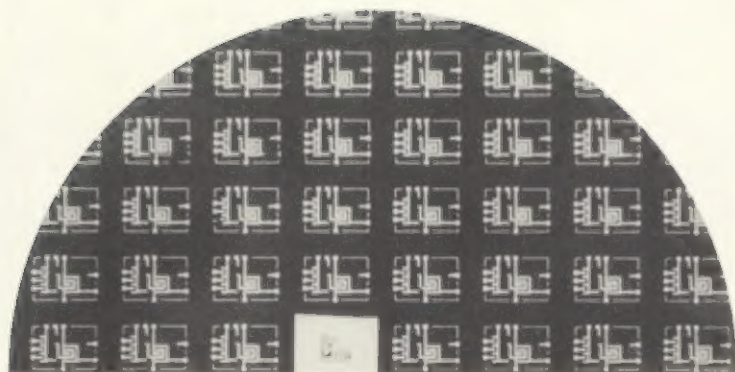


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TELEDYNE, INC.

ANNUAL REPORT
1961

board of directors Henry E. Singleton, *Chairman*
George Kozmetsky
Arthur Rock
Claude E. Shannon

officers Henry E. Singleton, *President and Treasurer*
George Kozmetsky, *Executive Vice President*
and Secretary
Howard P. Gates, *Vice President*
Jean A. Hoerni, *Vice President*
Jay T. Last, *Vice President*
Teck A. Wilson, *Vice President*

counsel Irell and Manella, Beverly Hills

transfer agent Bank of America National Trust and
Savings Association, Los Angeles

registrar Security First National Bank, Los Angeles

executive offices 12964 Panama Street, Los Angeles 66, California

To Our Shareholders:

This report presents the results of your company's first year of operation. Sales for the year totalled \$4,491,431. Consolidated net after-tax earnings amounted to \$133,190, or twenty-five cents per share on the 519,550 shares outstanding at year-end. Additional income of \$40,485*, excluded in consolidation, raise earnings to \$173,675, or thirty-three cents per share. Backlog of the company increased throughout the year, and at present totals more than \$10,000,000.

Your company's objective has been from the beginning to become a major developer and manufacturer of a broad line of electronic systems and equipments, and of the electronic instruments and components that go into such systems. Key elements supporting this objective are (1) the establishment of a profitable and expanding operating base, and (2) the assembly and effective utilization of a strong research and development organization. The company made substantial progress in both of these areas during the year.

The company's operating base was expanded steadily throughout the year by a combination of acquisitions and internal growth. In October of 1960 Teledyne acquired 87½% of the outstanding stock of Amelco, Inc. and all of the outstanding stock of Handley, Inc. and Mercury Transformer Corporation. These acquisitions gave the company eighty thousand square feet of floor space devoted to the development and manufacture of electronic systems, data entry and readout equipment, magnetic devices and transformers, high quality etched circuits and miniature trimmer potentiometers. Total employment in these corporations was about 200 people in November of 1960, and had more than doubled by year end. In July of 1961,

*Consists of \$28,880 amortization of excess of cost of subsidiary over tangible net asset value, included in consolidation in cost of sales, plus \$11,605 of minority interest in the income of Amelco, Inc. which has become wholly owned.

Teledyne acquired Palmer Instruments of South Pasadena, California, with its excellent precision shop facilities and strong proprietary position in temperature control techniques and low frequency quartz crystals used in crystal filters and stable oscillators. In August of 1961 the acquisition of the minority interest in Amelco was completed, making all of the company's subsidiaries wholly owned. Subsequent to the close of the fiscal year, the company acquired the assets and business of Linair Engineering, Inc., a leader in aircraft and missile pneumatic and hydraulic fittings, and through its subsidiaries a manufacturer of a variety of electronic components, including precision potentiometers, relays, switches, and electric motors. The trimmer potentiometer business of Handley, Inc. and the quartz crystal business of Palmer Instruments have been consolidated with the electronic components business of Linair in a separate building in Hawthorne, California, under the name of Teledyne Precision, Inc.

Paralleling the growth of the company's physical assets and capabilities has been the growth of its technical and development staff. The company now employs more than fifty engineers and scientists. During the year our technical people have been responsible for the acquisition of a variety of prime and subcontracts in the fields of electronic communications, data processing, computers, and automatic control equipment. Some of these contracts are for advanced research and development, others are for technical studies, while still others are for production of advanced equipment. Typical of these programs are the following: production of navigation computers for carrier-based antisubmarine aircraft, development of data processors for scientific satellites, an instrumentation study for design of space communication antennas, an adaptive (learning)

computer for simulating neural networks, an air defense study, and an antisubmarine warfare study.

Subsequent to the close of the fiscal year the company received a \$5 million contract for production of FADAC digital computers, scheduled to be used in the Army's new artillery fire direction centers. This program, widely sought after in the industry, is expected to be of considerable significance to the company's future.

In February of 1961, the company opened its Electron Devices Division in Mountain View, California, with the objective of developing proprietary manufacturing processes for the direct application of electronic solid state technology to the manufacture of electronic systems and equipment. Under the leadership of an outstanding group of scientists, this division has made notable progress. The division now employs fifty people. In addition to actively supporting the programs of the systems division in Los Angeles, at this writing the division is completing development of a number of new solid state devices and special assemblies for sale to the industry.

During its first year, the company invested more than \$350,000 in research and development. This program of company-sponsored research and development will be expanded in the future, as we continue with the development of proprietary products and the preparation of technical studies and proposals. The field of advanced electronics invites this kind of investment, and in return offers unlimited opportunities for growth. With the support of our shareholders and the dedicated efforts of our employees, we are confident that the company's continued growth will be assured.

Harry E. Singleton

PRESIDENT

TELEDYNE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET—OCTOBER 31, 1961

ASSETS

CURRENT ASSETS:

Cash and certificates of deposit.....		\$ 463,618
Accounts receivable—		
Customers, less reserve of \$9,078.....	\$530,039	
Reimbursable costs and fees under defense		
subcontracts (Note 2).....	762,034	
Employees and other.....	14,016	1,306,089
Inventories, at the lower of cost (first in,		
first out) or market.....		573,963
Prepaid insurance, taxes, etc.....		24,152
Total current assets.....		<u>\$2,367,822</u>

PLANT AND EQUIPMENT (Note 1):

	Cost	Reserve	Net	
Machinery and equipment	\$ 789,667	\$304,930	\$484,737	
Office furniture and				
equipment.....	64,650	37,535	27,115	
Leasehold improvements.	129,937	57,355	72,582	
Construction in progress.	65,332	65,332	
	<u>\$1,049,586</u>	<u>\$399,820</u>	<u>\$649,766</u>	649,766

OTHER ASSETS:

Excess of cost of investments in consolidated			
subsidiaries over equities in underlying book			
values at dates of acquisition (Note 1).....	\$626,732		
Deferred charge—consulting contract applicable			
to period expiring in 1963 (less amortization)	41,400		
Rent deposits, etc.....	45,091		
			<u>713,223</u>
			<u>\$3,730,811</u>

LIABILITIES

CURRENT LIABILITIES:

Current portion of long-term notes payable.....		\$ 155,000	
Accounts payable.....		403,595	
Accrued liabilities—			
Payroll.....	\$ 59,314		
Taxes other than Federal income taxes.....	67,372		
Other.....	68,749		195,435
Total current liabilities.....			<u>754,030</u>

LONG-TERM NOTES PAYABLE—noninterest bearing:

Unpaid balance of purchase price of minority interest in Amelco, Inc., due October 1, 1962, through 1965 (Note 1).....	\$ 610,000		
Others, due January 2, 1962, and October 1, 1963.....	45,000		
	<u>\$ 655,000</u>		
Less—Current portion.....	155,000		500,000

CAPITAL STOCK AND SURPLUS:

Capital stock, \$1 par value—			
Authorized 1,500,000 shares			
Issued and outstanding 519,550 shares.....	\$ 519,550		
Capital surplus.....	1,829,787		
Earned surplus.....	127,444		2,476,781
			<u><u>\$3,730,811</u></u>

The accompanying notes are an integral part of this balance sheet.

TELEDYNE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

for the year ended October 31, 1961

SALES		\$4,491,431
COST OF SALES.....		<u>3,880,695</u>
Gross profit.....		\$ 610,736
SELLING AND ADMINISTRATIVE EXPENSES.....		<u>452,022</u>
Profit from operations.....		\$ 158,714
OTHER DEDUCTIONS:		
Interest expense, etc.....	\$21,643	
Interest income.....	(7,724)	<u>13,919</u>
Net income before provision for Federal income taxes and minority interest.....		\$ 144,795
PROVISION FOR FEDERAL INCOME TAXES.....		<u>75,000</u>
Net income before special credit and minority interest.....		\$ 69,795
SPECIAL CREDIT—Federal income tax reduction from carryforward of prior years' operating losses.....		<u>75,000</u>
Total		\$ 144,795
MINORITY INTEREST—in net income of Amelco, Inc. for the year (prior to acquisition—Note 1).....		<u>11,605</u>
Net income including Federal income tax reduction from carryforward of prior years' operating losses.....		<u>\$ 133,190</u>

NOTE: Provisions for depreciation and amortization for the year were \$111,961.

The accompanying notes are an integral part of this statement.

CONSOLIDATED STATEMENTS OF SURPLUS
for the year ended October 31, 1961

	Capital Surplus	Earned Surplus
BALANCE, OCTOBER 31, 1960.....	\$ —	\$ (5,746)
ADD:		
Proceeds from sale of capital stock over par value thereof (net of issue costs of \$84,813)	1,773,387	—
Excess of fair value over par value of capital stock issued in exchange for net assets of Palmer Instruments (Note 1)	56,400	—
Net income for the year including Federal income tax reduction from carryforward of prior years' operating losses.....	—	133,190
BALANCE, OCTOBER 31, 1961.....	<u>\$1,829,787</u>	<u>\$127,444</u>

The accompanying notes are an integral part of these statements.

AUDITORS' REPORT

ARTHUR ANDERSEN & Co.

1330 WEST THIRD STREET
LOS ANGELES 17

To the Board of Directors, Teledyne, Inc.:

We have examined the consolidated balance sheet of TELEDYNE, INC. (a Delaware corporation) and subsidiaries as of October 31, 1961, and the related statements of income and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. It was not practicable to obtain confirmation of substantial amounts of accounts receivable at October 31, 1961; however, we satisfied ourselves as to such amounts by means of other auditing procedures.

Subject to the effect of any adjustment resulting from settlement of claims for recovery of certain reimbursable costs under defense subcontracts as described in Note 2, in our opinion, the accompanying financial statements present fairly the consolidated financial position of Teledyne, Inc. and subsidiaries as of October 31, 1961, and the results of their operations for the year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

ARTHUR ANDERSEN & Co.

LOS ANGELES, CALIFORNIA
FEBRUARY 6, 1962.

TELEDYNE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS OCTOBER 31, 1961

(1) Acquisitions and principles of consolidation—

The accompanying financial statements include the accounts of Amelco, Inc., Mercury Transformer Corporation, and Handley, Inc., all of which were wholly owned subsidiaries of the company at October 31, 1961. The company acquired 87½ per cent of the outstanding capital stock of Amelco, Inc. in October, 1960; the remaining 12½ per cent was acquired in August, 1961, for \$725,000. The unpaid balance (\$610,000) of the purchase price of the 12½ per cent interest is represented by a noninterest bearing note payable.

Of the total difference (\$771,130) between the costs of these investments and the underlying book value at acquisition dates, \$144,398 has been included (based on fair values determined by an appraisal) in Plant and Equipment on the accompanying consolidated balance sheet and is being amortized over a five-year period. The remainder (\$626,732) of this difference has been included in Other Assets and is not being amortized since, in the opinion of management, there has been no decline in the value of this asset.

In July, 1961, the company acquired all of the assets, subject to certain liabilities, of Palmer Instruments for 4,700 shares of its capital stock plus cash of \$57,237. Since acquisition, Palmer Instruments has been operated as a division of the company.

All significant intercompany accounts and transactions have been eliminated in consolidation.

Subsequent to October 31, 1961, the company entered into an agreement providing for the issuance of 119,979 shares of its capital stock in exchange for the business and assets, subject to liabilities, of Linair Engineering, Inc.

(2) Reimbursable costs under defense subcontracts—

Included in reimbursable costs under defense subcontracts is an amount of \$449,755 applicable to contracts which had been substantially completed as of October 31, 1961. Claims for recovery of these

costs are presently being negotiated. In the opinion of management, these claims will be successful and will be fully recovered.

(3) Lease commitments—

The companies' plant facilities located throughout California and a portion of the equipment used in their operations are held under lease agreements summarized as follows:

Description	Year of Lease Expiration	Renewal Option	Aggregate Future Rentals
Plant facilities—			
Los Angeles	1977	20 years	\$1,033,000
Mountain View . .	1962	2 years	13,000
Santa Monica . . .	1962	10 years	24,000
			<u>\$1,070,000</u>
Machinery and equipment	1961-1964	—	90,000
			<u>\$1,160,000</u>

(4) Stock options—

In October, 1960, the company adopted a plan which provides for granting of restricted stock options to key employees to purchase a maximum of 150,000 shares of its capital stock at a price which is not less than 95 per cent of the fair market value of the stock at the date of grant. The options are conditioned upon continued employment and will expire on such date as determined by the stock option committee (appointed by the board of directors), but not later than ten years from the date of grant. The options are exercisable on a cumulative basis of 25 per cent per year commencing in the second year after the date of grant.

During the year ended October 31, 1961, options to purchase 29,500 shares at \$1 per share and 45,650 shares at \$13 per share were granted under the plan. All of these options were outstanding at October 31, 1961.



TELEDYNE, INC. 12964 PANAMA STREET • LOS ANGELES 66, CALIFORNIA • UPTON C-9831 • EXMONT 8-6229
